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AUG 29 1997

RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT,
NORTHERN DISTRICT OF CALIFORNIA

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UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

11	ROGER SCHLAFLY,)	CIVIL NO. 94-20512 SW
12	Plaintiff,)	ORDER GRANTING RSA'S MOTION FOR
13	v.)	SUMMARY JUDGMENT ON PLAINTIFF'S
14	PUBLIC KEY PARTNERS AND RSA)	NON-INFRINGEMENT CLAIM AND
15	DATA SECURITY, INC.,)	GRANTING DEFENDANTS' MOTION FOR
16	Defendants.)	SUMMARY JUDGMENT ON PLAINTIFF'S
)	ANTITRUST AND UNFAIR BUSINESS
)	PRACTICES CLAIMS

Plaintiff Roger Schlafly proceeds pro se in this action he initiated against Defendant Public Key Partners ("PKP") and RSA Data Security, Inc. ("RSA"). In his Amended Complaint, Schlafly asserted the following claims: (1) libel; (2) patent invalidity; (3) patent non-infringement; (4) interference with contractual relationship; (5) fraud; (6) unfair business practices; and (7) antitrust violations.

In response to the Amended Complaint, Defendants moved to dismiss all of Schlafly's claims. This Court granted the motion as to Schlafly's claims for fraud and libel. Thereafter, the Court granted summary judgment for Defendants on Schlafly's claims of interference with contractual relationship and patent invalidity.

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1 Now, RSA moves for summary judgment on Schlafly's claim of non-
2 infringement of U.S. Patent No. 4,405,829 (the "RSA patent").
3 Additionally, PKP moves for summary judgment on Schlafly's antitrust
4 and unfair business practices claims because Schlafly has failed to
5 produce any evidence to support his allegations.¹

6 For the reasons set forth below, the Court GRANTS RSA's motion
7 for summary judgment on non-infringement and PKP's motion for
8 summary judgment on Schlafly's antitrust and unfair business
9 practices claims.

10

11 **LEGAL STANDARD**

12 Rule 56(c) of the Federal Rules of Civil Procedure states that
13 judgment shall be rendered "if the pleadings, depositions, answers
14 to interrogatories, and admissions on file, together with the
15 affidavits, if any, show that there is no genuine issue as to any
16 material fact and that the moving party is entitled to a judgment
17 as a matter of law." Fed. R. Civ. P. 56(c). The moving party
18 "bears the initial responsibility of informing the district court
19 of the basis for its motion" and identifying the portions of the
20 pleadings, depositions, answers to interrogatories, admissions, and
21 affidavits that demonstrate an absence of a genuine issue of
22 material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986).
23 However, the moving party is not required to negate those portions
24 of the nonmoving party's claim on which the nonmoving party bears
25 the burden of proof. Id.

26

27 ¹ RSA joins in PKP's motion for summary judgment on the antitrust
and unfair business practices claims.

28

1 Once the moving party demonstrates that there is no genuine
2 issue of material fact, the nonmoving party must designate
3 "specific facts showing that there is a genuine issue for trial."
4 Id. at 324. The nonmoving party must "make a showing sufficient to
5 establish the existence of an element essential to that party's
6 case, and on which that party will bear the burden of proof at
7 trial." Id. at 322. There may be no genuine issue of material
8 fact if "the evidence is of insufficient caliber or quantity to
9 allow a rational finder of fact" to find for the nonmoving party.
10 Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 254 (1986).

11

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DISCUSSION

13

A. Schlafly's Non-infringement Claim

14 Schlafly alleges that during the prosecution of the RSA patent
15 the inventors stated that "there are no mathematical algorithms in
16 the applicants' claims." Schlafly further contends that due to this
17 statement Defendants are barred by the doctrine of file wrapper
18 estoppel from asserting that the RSA patent covers the use of the
19 "RSA algorithm."²

20

21 The doctrine of file wrapper estoppel, or prosecution history
22 estoppel, precludes a patent owner from obtaining a claim
23 construction that would include subject matter surrendered during
24 the prosecution of the patent. Hughes Aircraft Co. v. United
25 States, 717 F.2d 1351, 1362 (Fed. Cir. 1983). "The estoppel

26

27 ² It is not entirely clear what Schlafly means when he refers to
28 the "RSA algorithm." However, the Court will assume for purposes of
this motion that Schlafly is referring to the series of mathematical
calculations or transformations recited in the RSA patent.

1 applies to claim amendments to overcome rejections based on prior
 2 art and to arguments submitted to obtain the patent." Id.
 3 (internal citations omitted). The rationale of the doctrine is
 4 that once a broader scope of interpretation for a claim is
 5 disclaimed during the prosecution of a patent, the patent owner is
 6 not entitled to reinstate the broader scope. Coleco Industries v.
 7 United States Intern., 573 F.2d 1247, 1257 (C.C.P.A. 1978).

8 However, all changes and arguments made during the prosecution
 9 of a patent do not result in estoppel. "There is no all-
 10 encompassing rule that estoppel results from all claim changes, or
 11 all arguments, whatever their cause or purpose." Pall Corp. v.
 12 Micron Separations, Inc., 66 F.3d 1211, 1220 (Fed. Cir. 1995),
 13 cert. denied, 117 S.Ct. 1243 (1997). Thus, the arguments must be
 14 viewed in context to determine whether prosecution history estoppel
 15 applies. Read Corp. v. Portec, Inc., 970 F.2d 816, 824-25 (Fed.
 16 Cir. 1992).

17 Here, the patent examiner rejected the claims of the RSA
 18 patent application as being directed to non-statutory subject
 19 matter under 35 U.S.C. § 101 and stated that the claimed invention
 20 "lies" in a particular algorithm. Office Action, Dec. 15, 1978. In
 21 response, the applicants' attorney argued that the claims included
 22 equivalence relations and not algorithms as defined in Gottschalk
 23 v. Benson, 409 U.S. 63 (1972). In making this argument, the
 24 applicants' attorney stated "there are no mathematical algorithms in
 25 the applicants' claims." The applicants' attorney also argued that
 26 "even assuming that . . . the process steps herein 'directly or
 27 indirectly recite process steps which are themselves calculations,

1 formulae, or equations . . . it is clear that the applicants' claims
2 in no way wholly preempt any such calculations, formulae or
3 equations." Amendment, May 15, 1979. The examiner subsequently
4 withdrew the non-statutory objection after the applicants' attorney
5 agreed to amend the claims "to reflect that the mathematical
6 transformations were performed upon 'signals' to better define the
7 same in light of the 35 U.S.C. § 101 rejection." Examiner
8 Interview Summary Record, Aug. 6, 1979.

9 Based on this record, Schlafly seeks a determination that the
10 RSA patent does not cover the use of the "RSA algorithm." Schlafly
11 acknowledges, however, that interpreting the patent in this manner
12 is nonsensical. In fact, Schlafly refers to the argument that the
13 claims do not contain algorithms as "mathematical gobbledegook."
14 Nevertheless, Schlafly contends that such a determination is
15 compelled by the prosecution history because the patent examiner
16 must have accepted the applicants' argument regarding equivalence
17 relations "at face value."

18 After carefully considering the relevant portions of the
19 prosecution history, the Court finds Schlafly's assertions
20 unpersuasive. Even if the Court assumes that the examiner accepted
21 the applicants' argument, file wrapper estoppel would not apply.
22 The applicants argued that the claims contained only equivalence
23 relations. If the examiner accepted this at face value then the
24 examiner also accepted the proposition that the "RSA algorithm,"
25 which was set forth in the claims, constitutes an equivalence
26 relation. As such, even if the examiner believed the applicants'
27 arguments, the RSA equivalence relation would be covered by the
28

1 patent. In other words, the applicants did not surrender a broad
2 claim construction for a narrow one. Rather, the applicants'
3 argument merely redefined the subject matter of the claims while
4 retaining all of the elements of the original claims. Thus, even
5 if the examiner accepted the "mathematical gobbledegook" at face
6 value, nothing was disclaimed by the applicants and estoppel would
7 not apply.

8 Further, the more logical conclusion is that the examiner
9 withdrew his non-statutory objection because the claimed invention
10 uses mathematical calculations for a specific practical application
11 but does not wholly preempt a mathematical formula. The
12 prosecution history reveals that the examiner withdrew his
13 objection after the applicants' attorney agreed to clarify the
14 claims so that the mathematical transformations were performed upon
15 "signals." This demonstrates that the examiner was concerned about
16 the process described in the claims and the practical application
17 of the invention and did not accept the applicants' argument "at
18 face value." This conclusion is also consistent with this Court's
19 August 22, 1997 order in which the Court found that the RSA patent
20 contained statutory subject matter.

21 In sum, Schlafly requests that the Court rigidly apply the
22 file wrapper estoppel doctrine and ignore the logical
23 interpretation of the RSA patent. However, the Court finds that
24 the inventors of the RSA patent did not surrender or disclaim the
25 use of the RSA algorithm. Further, the Court concludes that the
26 examiner did not rely on the argument made by the applicants'
27 attorney when he allowed the claims. Therefore, the Court GRANTS
28

1 RSA's motion for summary judgment on Schlafly's claim of non-
2 infringement.

3 **B. Schlafly's Antitrust and Unfair Business Practices Claims**

4 In 1990, RSA and Caro-Kann Corporation ("CKC"), which is a
5 wholly-owned subsidiary of Cylink Corporation, formed Public Key
6 Partners ("PKP"). In forming the partnership, RSA and CKC gave PKP
7 exclusive licensing rights to several patents relating to public
8 key cryptography. Thereafter, PKP was the exclusive licensor of
9 the patents until the partnership was dissolved in September 1995.

10 Schlafly, who develops cryptography software, contends that
11 PKP and its partners committed several unlawful acts for the
12 purpose of stifling competition. In his Amended Complaint,
13 Schlafly alleges: (1) that RSA and CKC pooled their patents in an
14 attempt to monopolize the market; (2) that PKP falsely stated that
15 it provided licenses on a non-discriminatory basis; (3) that RSA
16 tied its software products with the patent licenses; (4) that PKP
17 and RSA initiated an unlawful boycott; and (5) that PKP exaggerated
18 the scope of the patents. Schlafly further asserts that by
19 committing these allegedly anti-competitive acts Defendants
20 violated of sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 &
21 2, and the California Unfair Business Practices Act, Cal. Bus. &
22 Prof. Code § 17001, et seq.

23 1. Antitrust

24 Defendants correctly point out that for Schlafly to prevail on
25 his Sherman Act claims he must define the relevant market,
26 establish that Defendants possessed market power and show an actual
27 adverse effect on competition. See, 35 U.S.C. § 271(d) (requiring

1 showing of market power for patent misuse involving refusals to
 2 license or tying); Spectrum Sports v. McQuillan, 506 U.S. 447, 456
 3 (1993) (holding that plaintiff must prove dangerous probability of
 4 achieving monopoly power for attempted monopolization claim); Bhan
 5 v. NME Hospitals, Inc., 929 F.2d 1404, 1413-14 (9th Cir. 1991),
 6 cert. denied, 502 U.S. 994 (1991) (dismissing claim of unlawful
 7 boycott for failure to show actual anti-competitive effects).
 8 Defendants also argue, and the Court agrees, that Schlafly has
 9 failed to make the requisite showing to on these elements for his
 10 claims to survive a motion for summary judgment.

11 In regard to market definition, Schlafly merely states that
 12 the markets are the public key cryptography market and the
 13 encryption market. As an initial matter, there can only be one
 14 relevant product market. Moreover, Schlafly does not provide any
 15 analysis of economic substitutes or other evidence to support his
 16 conclusory statements of the relevant market.

17 To demonstrate market power Schlafly relies on the conclusory
 18 allegation that the RSA "is the dominant U.S. vendor of
 19 cryptography software, and has monopoly power in that market."
 20 Amended Complaint ¶ 81. Once again, Schlafly fails to submit
 21 evidence to support his assertion. Further, "[a] patent does not
 22 of itself establish a presumption of market power in the antitrust
 23 sense." Abbott Laboratories v. Brennan, 952 F.2d 1346, 1354 (Fed.
 24 Cir. 1991), cert. denied, 505 S.Ct. 1205 (1992).

25 Schlafly also fails to meet his burden of establishing actual
 26 anti-competitive effects. Schlafly claims that in forming the
 27 partnership, Defendants eliminated competition between two

1 technologies. However, the record is devoid of any evidence
2 demonstrating that combination of the technologies adversely
3 effected competition in the relevant market. Moreover, the
4 Antitrust Guidelines for the Licensing of Intellectual Property
5 issued by the Department of Justice and the Federal Trade
6 Commission, which Schlaflay submitted to the Court, provides that
7 licensing arrangements are generally considered to be pro-
8 competitive.

9 In sum, Schlaflay relies on his own estimates, arguments and
10 guesses to support his antitrust claims rather than providing
11 specific facts. Estimates, arguments and guesses do not, however,
12 create a genuine issue of material fact. Thus, the Court GRANTS
13 summary judgment in favor of Defendants on Schlaflay's antitrust
14 claims.

15 A. Unfair Business Practices

16 California's Unfair Business Practices Act prohibits "unfair,
17 dishonest, deceptive, destructive, fraudulent and discriminatory
18 practices by which fair and honest competition is destroyed or
19 prevented." Cal. Bus. & Prof. Code § 17001. To prevail on a
20 unlawful business practices claim a plaintiff must demonstrate that
21 the defendant committed some predicate act that is unfair,
22 unlawful, or fraudulent.

23 Here, Schlaflay does not demonstrate the existence of any
24 unfair, unlawful, or fraudulent practice. Schlaflay alleges that
25 Defendants misused their patents and maintained unfair licensing
26 policies. However, the evidence does not show that RSA or PKP knew
27 that any of the patents were invalid or exaggerated in scope.

1 Further, Schlafly has failed to establish in this litigation that
2 any of the patents are invalid or entitled to narrow
3 interpretations.

Schlafly's claims of unfair licensing policies are also without merit. Schlafly contends that RSA's licensing policy is unreasonable because RSA refuses to license "toolkits" or allow licensees to purchase "toolkit" products from another supplier. However, a patent owner is not required to license his patent. Further, a patentee's exclusive rights are divisible so that a patentee may rent out some rights while retaining others. As stated by the Supreme Court, "[t]he right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." Adams v. Burke, 84 U.S. 453, 456 (1873). Thus, RSA's decision to restrict its licenses and retain the "toolkit" rights to its patents does not constitute an unlawful practice.

CONCLUSION

19 RSA's motion for summary judgment on non-infringement and
20 Defendants' motion for summary judgment on Schlafly's antitrust and
21 unfair business practice claims are GRANTED.

23 IT IS SO ORDERED.

24 DATED: 8/29/97

Spencer Williams
SPENCER WILLIAMS
United States District Judge